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Weekly Intelligence Summary No. 36

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

KRUSEVO, near the Albanian border in southern Yugoslavia, has been tentatively identified as a new base for the on-loading of contraband flown to Israel. (Item No. 1, C)

The Greek Government, in line with assurances given the US last April, has informed the Czechoslovak Government that the provisional authorization for its airline to operate through Athens to the Near East will eventually be withdrawn. Meanwhile, the number of flights through Athens permitted the Czechoslovak airlines has been reduced. This action by the Greek Government will implement to some extent the US-UK policy of blocking Satellite air penetration of the Near East. (Item No. 2, B)

The expected reorganization of British Overseas Airways Corporation (BOAC), largest and oldest of three Government-owned airlines, is soon to be effected. (Item No. 3, C)

Plans for retrenchment of British overseas airline operations, including the pending reorganization of British Overseas Airways Corporation (BOAC), may initiate a modification of the present international civil aviation policy of the UK. (Item No. 4, B)

Rehabilitation of the rail system in Bizonal Germany has been so rapid that its limited traffic potential is no longer a serious retarding factor blocking the increased German production required for European recovery. (Item No. 5, C)

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The recent Soviet order requiring the Austrian Federal Railways to turn over 540 locomotives and 5,575 railway cars by early December 1948, has disturbing implications. With an air of legality, the USSR can thus denude the Austrian rail system of a large proportion of its serviceable rolling stock and thereby effect serious interference with the Austrian phase of the ERP program. The Kremlin, moreover, can use this claim to exert additional pressure on the pro-Western Austrian Government. (Item No. 6, A)

Soviet transport officials have informally indicated their willingness to discuss interzonal Danube traffic with Austrian officials. Large-scale resumption of this traffic, however, is unlikely. (Item No. 7; A)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. KRUSEVO, near the Albanian border in southern Yugoslavia, has been tentatively identified as a new base for the on-loading of contraband flown to Israel. This airfield, capable of handling 4-engine aircraft, is now being used to avoid icing conditions and other hazards experienced on the former air route from Czechoslovakia to Palestine via Ajaccio. Shipment of supplies by rail from Czechoslovakia to Krusevo, furthermore, shortens the distance to be flown, and makes possible a substantial increase in tonnage without an appreciable increase in the number of aircraft employed.

If the report of Yugoslav-Czechoslovak cooperation in forwarding supplies to Israel is based on fact, it further indicates that Tito is subordinating his quarrels with the Kremlin to the continued support of Soviet foreign policy wherever it does not conflict directly with Yugoslav interests.

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2. Restrictions recently imposed by the Greeks on Czechoslovak air traffic will implement to some extent the US-UK policy of blocking Satellite air penetration of the strategic and politically sensitive areas of the Eastern Mediterranean.

Despite forewarning by the Greek Government that it was not willing to conclude the long-pending civil air agreement with Czechoslovakia at this time (see T/G Summary 7 Sept.), General Stanovsky, head of Czechoslovak civil aviation, recently arrived in Athens in an attempt to reopen discussions. Greek authorities, however, restated their position that until Greek air carriers are prepared to establish air services to Prague, Greece has no desire to conclude a formal bilateral agreement. (A stop at Athens is essential for Czechoslovak Airlines (CSA) en route to the Near East, with its present fleet of DC-3s.)

Although Czechoslovak Airlines (CSA) continues to operate to Athens on the basis of a provisional authorization, Greek officials, in line with previous assurances to the US, have reduced the number of flights CSA is permitted to make through Athens. (In particular, CSA flights between Athens and Haifa have been curtailed.) Greece, furthermore, has informed Czechoslovak officials that the provisional authorization covering all CSA flights beyond Athens (to Istanbul, Beirut, Haifa and Cairo) will be withdrawn eventually.

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3. The expected reorganization of British Overseas Airways Corporation (BOAC), largest and oldest of three Government-owned airlines, is soon to be effected.

In contrast to its past policy of permitting the airline corporations to retain control of managerial and certain policy matters, the Government is actively directing this reorganization. Centralized control of BOAC's operating divisions in London is expected to eliminate the waste resulting from unnecessary rivalries between BOAC's loosely controlled, autonomous regional divisions.

Because of its poor performance record, British South American Airways Corporation (BSAA), a second government-owned airline, will probably be absorbed eventually into BOAC. As a move in that direction, the reorganization plan of BOAC may feature a closer working relationship with BSAA.

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4. Plans for retrenchment of British overseas airline operations, including the pending reorganization of British Overseas Airways Corporation (BOAC), may initiate a modification of the present international civil aviation policy of the UK. In order to bolster the competitive position of the hard-pressed British air carriers, the UK may attempt to introduce restrictive measures, such as the arbitrary division of air traffic with other countries. The UK has hitherto cooperated with the US in vigorously combatting the postwar tendency in many countries to seek to impose such restrictions in their bilateral air agreements.

Should the UK take this step, it would constitute a departure from the US-UK agreement of 1946 ("Bermuda") which established a policy freeing international civil aviation from restrictions which had long hampered its development. (All subsequent bilateral air agreements with other countries entered into by the US and the UK have conformed to the principles set forth in the "Bermuda" agreement.)

A modification of British policy at this time would not only signalize a split between the US and the UK in matters concerning international civil aviation, but would encourage those countries with less developed air resources to seek similar protection for their airlines. This trend might result eventually in a general world-wide divergence from air policy objectives advocated by the US. A liberal multilateral civil aviation agreement, furthermore, between the countries participating in the International Civil Aviation Organization, might be indefinitely postponed.

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SURFACE TRANSPORTATION

5. Rehabilitation of the rail system in Bizonal Germany has been so rapid that its limited traffic potential is no longer a serious retarding factor blocking the increased German production required for European recovery. In the Ruhr, where war damage to rail facilities was especially severe, the entire coal production is now being moved. A serious over-all shortage of serviceable freight cars still exists, however, and low priority freight shipments are not being promptly handled in all cases. With the aid of expected new-car construction and the intensive car repair program, rail transportation will continue to meet the minimum requirements of Western Germany's economic revival, and within two years sufficient rolling stock will be available to handle normal service in all categories of traffic throughout the Western Zones.
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6. The recent Soviet order requiring the Austrian Federal Railways to turn over 540 locomotives and 5,575 railway cars by early December 1948, has disturbing implications. With an air of legality, the USSR can thus denude the Austrian rail system of a large proportion of its serviceable rolling stock and thereby effect serious interference with the Austrian phase of the ERP program. The Kremlin, moreover, can use this claim to exert additional pressure on the pro-Western Austrian Government. The Communist paper "Volksstimme" already hurling charges of non-cooperation and anti-Soviet agitation against the Austrian Government, asserts that a display of Austrian good will could have created an atmosphere in which the Soviets might have relinquished all or part of the claim.

The fact that the Soviets will permit Austria to effect some of the deliveries in damaged and unserviceable stock, plus the location of specific delivery points, suggests strongly that some of the stock will be used as scrap or as a source of parts for the rail systems of Hungary and Eastern Germany, which are suffering from critical shortages in such materiel.

The Austrian Transport Ministry, fearing further hardening of the Soviet attitude, does not favor submitting the new problem to the Allied Council, and is attempting through bilateral negotiations to moderate the Soviet demands. Foreign Minister Gruber, on the other hand, while admitting in part the validity of the Soviet order, intends to elicit the support of the Allied Council as a matter of principle and as a deterrent to further Soviet claims.

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7. Recent informal Soviet indications to Austrian transport officials of willingness to discuss Danube traffic resumption probably reflect a desire to test the firmness of Western determination to refuse any Danube arrangement which is not completely reciprocal. The USSR, at the same time, probably wishes to clarify the Western position with respect to the new Danube regime established at Belgrade. Actually, there has been no official Soviet reply to proposals for limited traffic resumption on the Danube which Austria made in September, and it is unlikely that any large-scale movements of traffic will result from Soviet-Austrian conversations. It is clear, however, that the present stagnation in Danube traffic has adversely affected recovery in the Balkan States, and Soviet initiative in the resumption of interzonal Danube traffic on a limited scale may be designed to allay Satellite restlessness on that score.
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